

ARTICLES

Nestle Japan

—“Morning Time with Nestle”—

Shoichi Hyakkai

Introduction

On the 11th day of Sep in 1987, President of Nestle Japan Ltd invited one hundred major buyers for retailers such as supermarkets and foods agents at the Hilton International hotel, new business center of Shinjyuku in Tokyo, and opened the “Breakfast seminar” for presenting the importance of breakfast on the side of dietetics, social phenomena and merchandizing, starting from the viking style breakfast at eight o'clock in the morning.

In the spring of 1987, Nestle Japan launched the three ready-to-eat (RTE) cereals, “Nestle Cheer-torio”, “Nestle Choco-pick”, and so on targeting the children for the breakfast. Standard price per one box (100~150g) is 270yen (\$2.0) (See attached Data 1).

At the seminar, Nestle Japan requested the necessary shelf facing to launch the new brand, even if it is common for the RTE cereal aisle to be set proportionately to the shop's sales for each brand, after explaining the importance and prospect of breakfast.

Simultaneously, Nestle Japan are also broadcasting on TV commercial, “Morning Time with Nestle!” so heavily, and in addition giving lots of free

This case was presented by Shoichi Hyakkai of Kanagawa University and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of management situation.

samples to the prospect customers in their shops.

"From ancient times, there are a lot of cereals for a breakfast in Japan. But many manufacturers did not pay attention to the breakfast market in the past. If we manufacturer, try to make an efforts to stimulate the market in many ways, there is a tendency to grow". Section manager A. Itoh, in charge of this project, of Nestle Japan explained the reason why we are emphasizing the breakfast market.

Nestle Japan also plan to open this seminar in Osaka city, the biggest city in the western part of Japan.

History of Nestle Japan Ltd.

Nestle Japan has been a top coffee manufacturer in Japan and is the one of the largest company in the world, with a profit of \$1,225 million in 1987.

Nestle had originated as early as 1866 when an american, Page Brothers, incorporated under the name of "Anglo-Swiss Condensed Milk Company" in Cham, Switzerland. Then in 1867, Henri Nestle, born in Frankfurt in 1814, incorporated under the name of "Societe Anonyme Farine Lactee Henri Nestle" in Vevey, a lakeside of lake "geneve", to sell his own products, such as a mineral water and lemonade. With infant mortality rates high over the world at that time, Henri devoted his energy to research foods for an infant, and consequently in 1867, he developed the cereal based on cow's milk.

Both companies were active until 1904, and then renamed the "Nestle-Anglo-Suisse Condensed Milk Company", after the merger of the two company in 1905. In 1913, Nestle and Anglo-Suisse Condensed Milk Company opened a Japan branch office in Yokohama metropolitan area, 40 kilometers south of Tokyo, under the control of the far East Export

Division in London. Afterward, this branch was moved to Kobe Port area, western part of Japan in 1922.

In 1933, the company established in the Hirota factory for setting up the domestic production in conjunction with Fujii Condensed Milk Company of Awajishima island. Later the company changed name to Awaji Condensed Milk Company.

In 1940, Japan branch office changed name and became the Nestle Product company, Kobe Branch, after the parent company changed name to the Societe. des. Produits. Nestle. S. A.

After the World War II, the company reopened to produce the "EAGLE" branded condensed milk and "Milkmaid" evaporated milk in 1950. In 1960 Nestle Japan Ltd is launched, resulting from the merger between Awaji Condensed Milk Co., Ltd and Nestle Products Company in 1960.

A proud century

In 1961, Nestle Japan Ltd broadcasted its first TV commercial, "I am Nescafe" to sell the "Nescafe" branded soluble coffee, so-called "instant coffee", which was firstly produced and sold in 1938, and captured the top share in the coffee market, after advertising on the TV, newspapers and magazines heavily.

In 1966, the company produced the "Nescafe" domestically after the completion of Himeji factory, and also started to sell the "Nescafe Gold Blend", freezed dry coffee, and "MAGGI Bouillon" branded soup in 1967, "Brite Creaming Powder" in 1969 continuously.

In 1973, after the completion of Shimada factory in Shizuoka Prefecture, the production of "Nescafe" started. In 1978, after the completion of Kasumigaseki Factory completed, the production of "Milo ", and "Brite"

begun. The “Krematop”, liquid coffee creaming, in 1979 and the “Nescafe president”, freezed dry coffee, in 1980 begun to sell.

As a result, Nestle Japan demonstated the strong leadership in the market share of coffee business (Exhibit 1).

Exhibit 1 Market share in the soluble coffee market in Japan 1980

Nestle Japan	63.7%
Ajinomoto General Foods *1	21.3%
Other	15.0%

* 1 General Foods now as part of Kraft General Foods.

AGF is a joint venture of Ajinomoto Co Ltd and General Foods since in 1973.

In 1985, after acquisition of Hills Brothers, and MJB coffee in U. S, MJB Japan and MJB Manufacturing Co, joined Nestle group.

After the “Nespresso”, espresso coffee, begun to sell in 1986, Nestle Japan lined up all the coffee from the soluble coffee to the roasted and ground coffee, and liquid coffee, so that all the young and old alike reached to know the brand name of these products (Exhibit 2).

Exhibit 2 Two major coffee manufacturers of Japan in 1985

Manufacturers Ground		Instant with Caffeine		Decaffeinated Instant
		Regular	Freeze Dried	Freeze Dried
Nestle	Original etc Nescafe		Nescafe Gold Blend	Nescafe Gold Blend
	MJB	Nescafe Excella	Nescafe President	caffeine-free
Ajinomoto- General Foods	Maxim	Blendy	Maxim	None
			Grandage	

However, revenues of Nestle Japan are generated mainly from the sales of coffees, and creaming powders, but few from the dairy products, cooking soups and beverages.

Nestle Group

From the early times of its history, as Nestle Group have been trying to find out the opportunity for growth in the food business areas, Nestle group acquired the following companies by M & A (Exhibit 3).

Exhibit 3 History of M & A by Nestle Group Worldwide

1929: Entry of the chocolate-makers "Peter-Cailler-Kohler-Chocolat Suisse S. A"
1947: Acquisition of MAGGI business (soup).
1960: Acquisition of Crosse and Blackwell (culinary products) in U.K.
1962: Acquisition of Findus group (frozen foods) in Sweden.
1973: Acquisition of Stouffer (frozen foods) in U. S. A.
1974: Entry in the cosmetics field through a shareholding in the L'Oreal Group in France.
1977: Acquisition of Alcon Group (pharmaceuticals) in U. S. A.
1985: Acquisition of Carnation (milk products, refrigerated foods, ice cream, instant drinks, culinary products, pet foods).
Acquisition of Hills Brothers and MJB (coffee) in U. S. A.

The consolidated sales amounted to SFr 42,2 million (Exhibit 4). The improvement of 36 percent over 1984, is the result mainly of the inclusion of the sales of the acquired companies (Data 3).

Exhibit 4 Sales Figures of Nestle Group (Billion of SFr)

1981	1982	1983	1984	1985
27.7	27.7	27.9	31.1	42.2

Geographically, in North America, the sales increased more that doubled due to acquisitions. In Europe, sales increased by 16 percent of which approximately one half resulted from acquisitions. In Asia, the growth of 7.8 percent was essentially the result of internal growth. In the Far East,

the sales of milk, infant and culinary products showed good improvements (Exhibit 5).

Exhibit 5 Geographical subdivision of the 1985 sales (Millions of SFr)

North America	15,639	(37.0%)	(ratio of total sales)
Europe	13,505	(32.0%)	
Asia	5,686	(13.5%)	
Latin America & Caribbean	5,005	(12.0%)	
Africa	1,448	(3.4%)	
Oceania	881	(2.1%)	

At present, over the 70 countries Nestle Group have been manufacturing and selling not only the traditional food business, but also the cosmetics, hotels, pharmaceuticals, restaurants and other business areas. The sales percentage for the each product group in 1985 is shown on the Exhibit 6.

Exhibit 6 Subdivision of the 1985 sales by main groups of products

Drinks	30.0%	(ratio of total sales)
Dairy products	21.0%	
Culinary products	31.2%	
Frozen foods & ice-cream	10.5%	
Chocolate & confectionary	7.6%	
Infant foods & dietetic products	6.1%	
Petfoods	4.2%	
Refrigerated products	3.3%	
Pharmaceutical & cosmetic products	2.3%	
Subsidiary products/activities	1.5%	
Hotels	1.4%	

Nestle Japan in 1987

Based on the above policies by Nestle Group, Nestle Japan decided to launch the new brand of RTE cereals, which added include the pumpkin, carrot, and spinach, and containing the well balanced minerals such as vitamins, iron, and calcium, as the coffee market had almost reached the maturity stage in Japan and there is a limited growth to be expected.

Sales concepts of the RTE cereals is "Breakfast with Nestle, Vegetable time!", targetting not only the young families, but also the children living in the urban areas. When new cereals are priced, prices of directly competing products are important consideration. So, out-of-store (OOS) price for a new brand is priced 340 yen (\$2.4) per one box (180g).

Nestle Japan established the following strategies to penetrate the market.

- | | |
|-------------------|---|
| 1) Basic strategy | Domain (basically concentrate on the RTE cereal market for breakfast) |
| 2) Target | Young families and children |
| 3) Approach | Non-sweetened taste of cereal
Commercial films on air by using the established image of Nestle, and giving more than 1 million free samples from August to the prospect customers in the store |
| 4) Strength | Product development |
| 5) Weakness | Distribution channel by coffee business |

The RTE cereal Market in Japan

It was 1963 when the RTE cereals, representing the corn-flake, were introduced in Japan by Kellogg Japan Co for the first time. For the twenty

years, there are only two major companies, Kellogg Japan Co and Cisco Co manufacturing and selling the RTE cereal with no competition. Till 1985, it was only 61-69 billion yen market annually, which was almost no growth rate. However, it begun to grow rapidly from the 1987 (Exhibit 7).

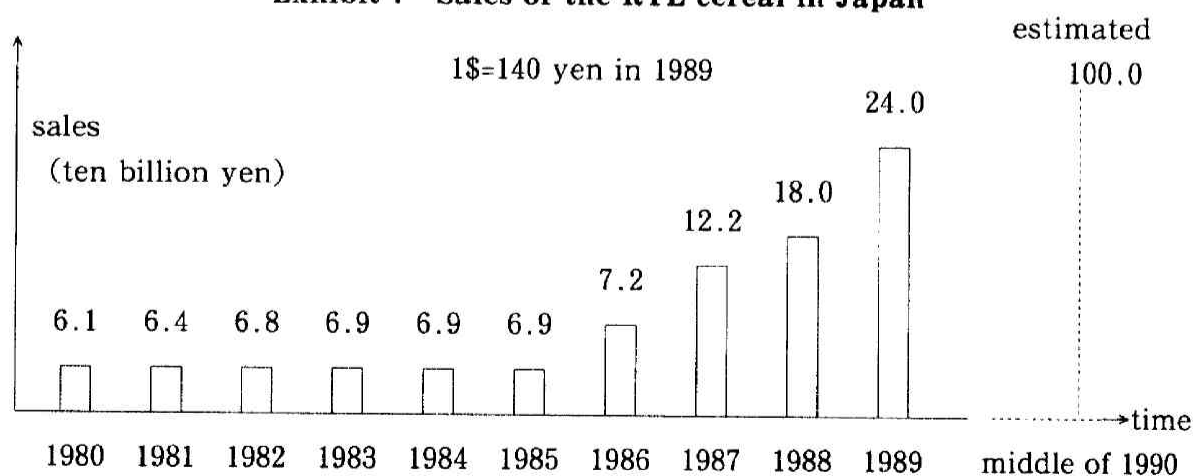
In 1987, the sales of RTE cereals and other grain based convenience foods increased 20 percent over the previous year. and according to the Nikkei Industrial Daily, it is estimated that the sales of these foods have reached 110 billion yen.

Matsuyama, managing director of Kellogg Japan Co, explained the reason, "Our sales increased 20 percent more. It is because that from the middle of 1980, we invested lots of advertising expenditure on TV commercials and other medias, it was effective".

On the other hand, Konishi, managing director of Cisco Co, also explained, "Our sales increased 15 percent more. It is because that recently we changed the package design of our products completely from 1980, and changed the target from the housewives to the young females".

From this year, the sales of RTE cereals have suddenly increased to 122 billion yen in 1987, 180 billion yen in 1988 and 240 billion yen in 1989 respectively.

Exhibit 7 Sales of the RTE cereal in Japan



—Marketing report by Yano Economic Research Institute
and Nikkei Sangyo Shinbun (The Nikkei Industrial Daily) —

There are lots of opinion for growing the RTE cereal market. According to the The Nikkei Industrial Daily, it is said that the reason are mainly consumers who are looking for the foods as "convenience" and "great taste". Newspapers also says that there are three reasons for demanding, (1) convenience food that fits today's lifestyles, (2) nutritional and healthy food that contains high fibres, (3) consumers that direct the low-fat and diet foods.

On the other hand, one analyst of Nestle Japan points out, "Before 1987, 80 percent of the sales were generated from the children. And it is seen that the RTE cereal is a kind of snack for afternoon refreshment. But almost 50 percent of the recent sales are from the adults, especially young females and young families. Because dual income families are increasing in the urban areas, and these young families are seeking for a healthy and convenient food in the morning, this is one reason why the consumption of RTE cereal is increasing year by year".

Sales manager of Kellogg Co also points out three reasons for growth, 1) expanding the RTE cereal market, 2) effects of heavy advertising, and throwing many samples into the prospect customers in the stores by a sales force of manufacturer, 3) many competitors entering the RTE cereal market.

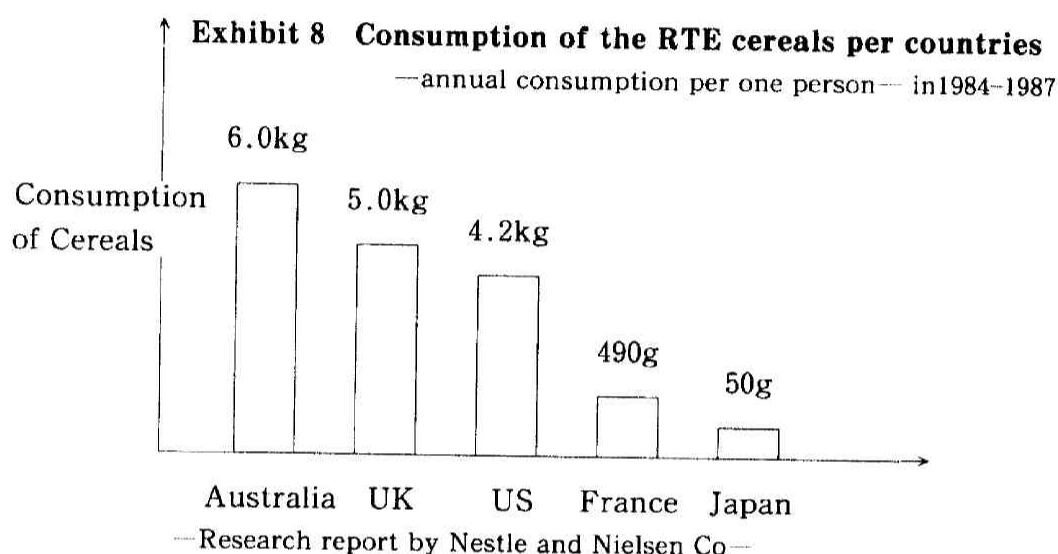
Sales manager of Cisco Co points out four reasons, 1) increasing of working women in the urban area, 2) the RTE cereal is publically admitted to the adults as a kind of foods, 3) diffusion of heating in the house, 4) many competitors entering the RTE cereal market.

Comparison with other western countries

According to the research reports, annual consumption of the RTE cereal per one person in the U. S, and western countries are 4 – 6 kg, on the

contrary in Japan 50g (Exhibit 8).

From this figures, it is estimated that the annual consumption of RTE cereal per one person in UK is 100 times as much as that in Japan. Even if the food and life style of Japanese is little different from that of the western countries, but there is a big potential to grow in the RTE cereal market.



Characteristics of the RTE cereal market in Japan

In the late 19th centuries, the whole-grain cereal products were firstly introduced to the foods for patients at the clinic by Dr J. H. Kellogg, and now more than 70 countries, the RTE cereals are selling all over the world. Here, we just look at the characteristics of RTE cereal.

1) Raw materials

Most manufacturers are commonly using the corn, and sometimes the wheat category such as wheat, barley, oats and rye, the rice category such as unpolished rice (genmai), and polished rice, the beans category such as soybean, redbean and buckwheat (soba), as a raw materials. In addition, they are recently using the Japanese foods as a raw material,

and wheat bran, as the consumer prefer the RTE cereal including vegetable fibres to the existing products. And they are also using the sugar, brown-sugar, cocoa, chocolate, and honey for coating on the RTE cereal as a sub raw material, or mixing the dry fruits such as raisin and pine, the nuts such as almond and coco, and sometimes the seaweed or vegetables.

2) Taste

In the past, the pre-sweetened RTE cereals were a mainstream in Japan. But recently basic RTE cereals such as corn-flake, are now selling well in the market.

3) Shape

Generally speaking, it is seen that the shape of RTE cereals are shifting from the flake-type to the grain of rice, the ring, the block and so on.

4) Product Differentiation by the manufacturers.

Main elements to differentiate the RTE cereals are as follows ; (1) balance of nutrition, (2) low-fat, (3) food for breakfast, (4) high fibers. However, the manufacturing process of RTE cereal is basically a simple, In addition, it is difficult for the manufacturer to discriminate the quality of products. Therefore, it is expected that many manufacturers can enter the RTE cereal market from other business areas very easily.

5) Segmentation of Products by main manufacturers

The RTE cereal market in Japan is divided into the two major segments by product for "families and adults", and "children" (Exhibit 9).

Exhibit 9 Segmentation of the RTE cereals in Japan
by Product Categories and Manufacturers in 1987

Manufacturer	Segment	
	Families and adults	Children
Kellogg	Corn-flakes	Corn-frost
	Genmai-flakes *1	Choco-Krispies
	All-bran	Honey-smacks
	Raisin Bran	Sugar-bom
	Country-Morning	Combos
	Soba K *2	Choco-wa
Cisco	Ciscorn-Corn-flakes	Ciscorn-frost
	Ciscorn-Genmai-flakes	Ciscorn-strawberry
	Ciscorn-Vegetable-flakes	Ciscorn-chocotype
	Ciscorn-Fruit-Bran	Ciscorn-krispies
	Ciscorn-Granola	Ciscorn-chocokrispies
	Take-fibre	
Nestle	Fitness	Chia-Torio
	Brown-rich	Choca-pick
	Vegetable-Time	Apple-PoP
	Gennmai-Plus	Moca-big
Calbee	Granola	Brown-sugar
	Cherious	Honey-gram
	Corn-flakes	

*1 Genmai (= Unpolished rice) *2 Soba (= Buckwheat)

The characteristics of RTE market is summarized as follows; there is a limit to sales, as current consumers consist of the children, young females and housewives with an infant or child (Exhibit 10). Both segment is supposed to be independent.

And there is also seasonality in demand, that is, high demand in summer and low demand in winter.

The best sellers of RTE cereal in the discount stores are "Corn-flakes", and "Corn-frost", especially by Kellogg and a family sized one.

Exhibit 10 Segmentation of the RTE cereal by consumers

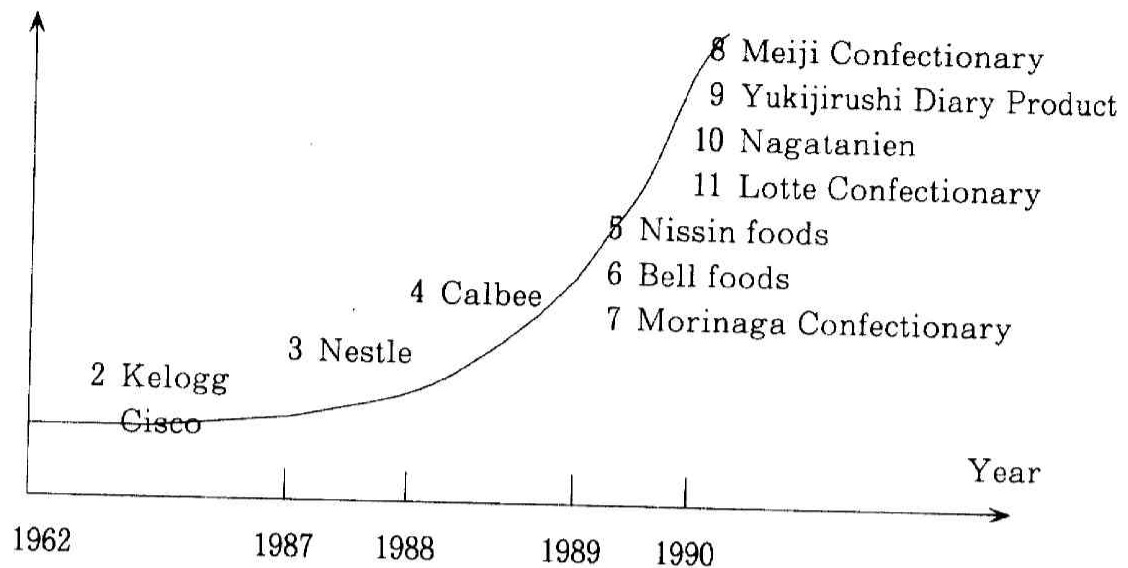
	cereal type	how to eat	consumer behavior
children	pres-sweetened	afternoon refreshment with milk or no milk	variety seeking
Adults (family female)	non-sweetened	breakfast with milk	relatively high brand loyalty

Retailers

The RTE cereals are selling mainly in the supermarket and discount stores, and gradually are going to sell the convenience stores in the urban area. Based on the observations, about 40 percent of the RTE cereals are on the shelf facings of bread corner, the other on the shelf facings of confectionary corner in the stores, because many manufacturers and whole sellers are conveying the products by using the distribution of confectionary channel. However, it is gradually increasing for some stores to display the RTE cereal on the shelf facing of bread corner as a morning menu.

The competitors

Since 1963, the Japanese cereal market had evolved to become the oligopoly with two companies (Kellogg Japan Co and Cisco Co), and Kellogg Japan Co had represented over 80 percent of total sales volume. But in 1987, Nestle Japan entered this market with concept of "Morning time with Nestle", and also in 1988, Calbee Co, a confectionary manufacturer, and the following competitors entered continuously, because the sales of RTE cereals, instead of bread and butter, are now increasing year by year (Exhibit 11).

Exhibit 11 No of company entering the RTE cereal market in 1990

Here we just look up the characteristics of main Competitors in the market.

(1) Kellogg Japan

Kellogg Japan, founded in 1963, started to manufacture the RTE cereal and were sold through the distribution channel of Ajinomoto Company Ltd, which is one of the leading company in the food business in Japan. Soon, the company became the dominant leader in RTE cereals. Kellogg markets some 12 different brands of RTE cereal, including such famous names as Corn Frosted Flakes, Genmai Flakes, Choco Krispies, Corn Flakes and Rice Krispies.

However these Products appealed limitedly to consumers of children as a kind of snacks, and adults who had lived in the western countries.

According to the reports by industrial analyst, it is estimated that Kellogg Japan Co are taking the following strategies to defend the market.

- 1) Basic strategy Make a habit of eating the RTE
Develop the new product for more than 40 years old, Kellogg Brand only
- 2) Target Originally Children, but expanded to the families

- | | |
|-------------|---|
| 3) Approach | <p>Sweetened taste of the RTE cereal</p> <p>Basically American Marketing policies to be taken</p> <p>Commercial films on air by using the personal character of famous entertainer, and refined package design</p> <p>Medium Pricing (1,590yen per kilogram)</p> <p>Heavy Advertising and Sales Promotion Expenditure</p> |
| 4) Strength | Market leader and distribution channel by Ajinomoto Co |
| 5) Weakness | - |

(2) Cisco Co

Cisco Co are very strong in the area of snack foods for the children. Recently Cisco Co introduced the new RTE cereals such as "Corn Frost", "Genmai-Flakes", targetting the adults last year. In 1987, Cisco Co are succeeded in selling the cup-type products for a single person, so called "cup flake", containing the rough rice, vegetables and others at the prices of 290 yen (\$2.0) per one box (200g) targetted to the young people.

At present, 30% of the companie's sales are resulting from the RTE cereals, the others from the confectionary such as biscuit and snack.

Cisco Co are shifting their policy from the confectionary area to the RTE cereal, and going to process the new RTE cereal targetted young females not only in the Kansai factory, but also in the Tokyo and Saitama factories as the company plan to line up to 21 products from 7 in 1989 spring. It is estimated that Cisco Co are now taking the following strategies, based on the observations and market analysts,

- | | |
|-------------------|--------------------------------|
| 1) Basic strategy | Private brand, Second brand |
| 2) Target | Children and add young females |

- 3) Approach Making full use of images as a confectionary manufacturer to the children
Medium Pricing (1,319 yen per kilogram) vs Kellogg
- 4) Strength Well known to the customers in the western part of Japan
- 5) Weakness Highly private branded-products (to the four supermarket such as Daiei, Itoyokado and others with a low price)

Even if three foregin manufacturers, Kellogg, General Mills and Nestle, are now competing each other in Japan, but Cisco Co do not have a plan to tie up with foreign manufacturers in the future, according to Senior Manager K. Nakano.

(3) Calbee Co

Recently Calbee Co, which is a top manufacturer of snack foods, got the sales licensing agreement with General Mills Co, the second biggest RTE cereal manufacturer in U. S, and General Mills Co is going to sell the RTE cereals through the distribution channel of Calbee Co in Japan. Calbee Co are planning to invest 30 billion yen (1\$=140 yen) for the factory at Utsunomiya, 100 kilometers northern part of Tokyo, and process the RTE cereals in the part of plant. After Utsunomiya plant start to work in August 1989, Calbee Co is going to process and sell the RTE cereals by his own from O. E. M (Original Equipment Manufacturing) by General Mills. In order to compete against the Kellogg directly, Calbee Co is also under the investigation of licensing agreement with Australian and Britshi manufacturers.

It is estimated that Calbee Co are taking the following strategies, based on the observations.

- 1) Growth factor Convenient and nutritionally balanced high fibre food New products to the adults
- 2) Basic strategy Develop the new products to meet the Japanese tastes
- 3) Target Basically young ages from the teenagers to the twenties
- 4) Approach Advertising
- 5) Strength Well known to the customers, especially children, in Japan as a confectionary manufacturer
- 6) Weakness Currently licensing agreement with the General Mills

(4) Morinaga Seika (Confectionary) Co

Morinaga Co is one of the leading company in the confectionary business (Exhibit 12). In the early 1960s, Morinaga Co had entered to sell the soluble coffee and consequently withdrew from the market, but now decided to launch the RTE cereal coated with a chocolate in 1990.

Exhibit 12 Sales composition (1,257 billion yen in 1989)

Confectionary	62%	Foods	20%	15%	Other
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(5) Nissin Foods Co

Nissin Foods Co is a top manufacturer of "cup of noodle", and holds almost 30-33% market share in the noodle soup business (Exhibit 13). Nissin Co had entered the RTE cereal market in 1978, but consequently withdrew from the market as the company gained only 1 percent market share of the RTE cereal market after few year's struggle.

Judging from the current booming in this market, Nissin Co decided to reenter the market again in 1990, and launched the new three products

(probably O. E. M from Cisco Co) such as "Disney Character Corn Sugateru! (corn-flakes coated with a sugar)", "Disney Character Corn-Flakes Chocotteru! (corn-flakes coated with a chocolate)", and one renewal product targetted for children. In addition, from the middle of 1990, Nissin Co plan to launch the three new RTE cereals, one is including a carrot, second a spinach, third a pumpukin, targetted for young females, and giving one million free samples to the prospect customers in the supermarket of Tokyo Metropolitan areas simultaneously. In addition, Nissin foods started to develop the discount stores and convenience (or bantom) stores in conjunction with the two big confectionary wholesaler, Inui Co and Sankus Co in Kansai (western part of Japan) area.

Exhibit 13 Sales composition (1,522 billion yen in 1989)

Snack & noodle 76%		Raw materials 21	3%	Other

(6) Bell Foods Co

From 1989, Bell foods Co, which is a subsidiary of Kanebo Co Ltd, entered in the RTE cereal market and were selling the RTE cereals in a limited area, Tokyo and Hokkaido (northern island of Japan). But the company try to sell the RTE cereal directly in Kanto and Tohoku (east and northern part of Japan) area, and indirectly in the western part of Japan by the distribution channel of Kanebo Co, which is one of the leading company in the textile indutry (Exhibit 14). Currently Bell foods import the raw materials of RTE cereal from the Australian company "Sanitaria Co", and process and sell under the brand name of "O. G. morning".

In April 1990, Bell Foods plan to launch a new beef tasted RTE cereal by applying Kanebo's food technologies, and line up to 12 RTE cereals

aiming at the sales of 20 billion yen from 1 billion yen in the previous year, as Bells Foods find it hard to grow the market of noodle soup. The company analyze that the driving forces of RTE cereal market are the change in lifestyle, diversification of consumer needs, and consumer are seeking the healthy foods.

Therefore, the company are focusing to launch the new RTE cereal as a kind of breakfast, not a snack.

Exhibit 14 Sales composition of Kanebo group (4,815 billion yen in 1989)

Cosmetics	27%	Fibers	22%	Textile	19%	A	B	A ; 14% Fashion B ; 10% Foods
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(7) Meiji Seika (confectionary) Co

Meiji Co is a top company in the confectionary business, and sales of Meiji Co are resulting from the two main business, confectionary and pharmaceuticals (Exhibit 15). But the confectionary market continues to mature, so that Meiji Co decided to expand their business to the food business such as RTE cereal, and refrigerated foods in march of 1991. To the Meiji Co, this is a first trial to enter the food business. However, there is a opinion in the company that the company is little late to enter the RTE cereal market as it is in a booming from 1988. After 2 years, the company plan to gain 20% market share in the market in the first year. Meiji Co is going to sell the RTE cereals in the limited geographical area with the planned sales of 20 billion yen, in the second year more than the planned sales of 70 billion yen.

On the other hand, within 4 to 5 years, Meiji Co decided to manufacture and sell the refrigerated foods to the department store in conjunction with the french food company from 1988.

Exhibit 15 Sales composition of Meiji Co (1,974 billion yen in 1989)

Confectionary	51%	Pharmaceutical	40%	9 %	Foods
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(8) Snow Brand (Yukijirushi) Milk Products Co

Snow Brand Co is a leading company in the dairy products, and holds almost more than 20 percent market share of the dairy industry in Japan. Sales of 4,760 billion yen in 1989 are resulting from dairy products, milk and related products (Exhibit 16).

Snow Brand Co launched the four "Quaker Oats" branded RTE cereals, at the price of 300-330 yen (\$2.3-2.4) per one box, in conjunction with the Quaker Oats Co, Chicago Il, in 1990 as Snow Brand Co have been cooperated with the Quaker Oats Co, and already sold the sports drinks. Snow Brand Co is distributing the RTE cereals through the their own selling agents (milk-shops).

Exhibit 16 Sales composition of Snow Brand Co (4,760 billion yen in 1989)

Dairy	38%	Milk	34%	Others	28%
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(9) Lotte Co

Lotte Co, whose owner is a Korean Japanese, is a private company, and one of the most diversified company in the confectionary business. Sales are resulting from the confectionary and ice cream business, the restaurant business managing the second biggest hamburger shops "Lotte-ria", and other business (Exhibit 17). Lotte Co also decided to launch the RTE cereals, such as "cereal chocolate (oats coated with a chocolate)" at the selling price of 150 yen (\$1.1) per one box in 1990, after completed the production line at Urawa Factory of Saitama Prefecture, Tokyo Urban Area. In 1991, Lotte Co plan to add the two RTE cereals, "Milk Choco (Oats

coated with a milk and chocolate)", and "Strawberry choco (Oats coated with a strawberry and chocolate)", at the price of 320 yen (\$2.3) per one box. Lotte Co expand to sell the RTE cereals from the limited area, Hokkaido (northern island) and Kansai area to all over the country, and plan to put the RTE cereals on the shelf facing of chocolate corner in the store to differentiate the competitor's RTE cereals.

Exhibit 17 Sales composition of Lotte Co in 1988

Confectionary & ice	69%	Restaurant	24%	7%	Other (disposable warmer, lighter, baseball team, lotte world in Seoul)
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(10) Nagatanien Honpo Co

Nagatanien Co also decided to enter the RTE cereal market targetted to the children, especially students of elementary school, by using the most favourite character "Doraemon" on cartoon program of TV, and launch the "Doraemon" branded RTE cereals, such as "milk chocolate", and "strawberry choco", at the price of 320 yen (\$2.3) per one box in the area of Shikoku island and Chugoku (western part of Japan) from Oct of 1990.

As we have seen new competitors entering the RTE cereal market, but it is estimated that the following figures shows the market share of RTE cereal market approximately in 1986-89 (Exhibit 18 and 19).

Exhibit 18 Estimated Market share in 1986-1989

	Feb 86	Aug 86	Feb 87	Aug 87	Feb 88	Aug 88	Feb 89
Kellogg	78	82	76	66	68	77	79
Cisco	14	13	13	10	11	8	8
Nestle	—	—	—	16	5	10	5
Others	8	5	11	8	16	5	8

Data : Nikkei Restaurant 1989. 4. 19 (Modified)

Exhibit 19 Estimated Market share in 1989

	Jun	Aug	Sep	Oct	Nov
Kellogg	77.5		62.3		75.2
Nestle				12	
Calbee		3 ~ 4	7.7	10	

Data : Nikkei Industrial Newspaper 1989. 12. 19

The best sellers of RTE cereal in Feb 1989 are as follows ;

1) "Corn-frost" (Kellogg), 2) "Choco-Krispies" (Kellogg), 3) "Genmai-flakes" (Kellogg), 4) "Corn-frost" (Kellogg), 5) "Raisin Bran" (Kellogg) and "Ciscorn-frost" (Cisco). And the half of sales in the RTE cereal in 1989 are adults (Exhibit 20).

Exhibit 20 Estimated Sales composition of the RTE cereal in 1989

Segment	Children	Adults
Composition	50%	50%

Data : Nihon Cornfoods Association

10 Nestle Japan's situation in 1990

1) Movement of Nestle group

In 1989, Nestle Group decided to launch the RTE cereal for breakfast in conjunction with General Mills Co, which holds 25% market share in America, and establish a joint venture in Europe, because the RTE cereals such as oatmeal and corn-flake are selling well. It is estimated that the sales of RTE cereals are at present 16 billion dollars, but expand to 65 billion dollars market in 2000. The new company are aiming to make a full use of Nestle's networks and General Mills's technologies in order to improve the market share in Europe, as at present, Nestle Group is weak in this area and gained only 35 percent market shares in Portugal, but only 10

percent in French and Spain respectively.

On the other hand, in order to compete against the Kellogg Co directly, Nestle Japan launched the RTE cereals targetted to the children and young females, but from the end of 1988, launched "Vegetable Time" targetted to the families, which is a growing and bigger market than children's and inevitably Nestle Japan must compete against Kellogg Japan in the same segment.

2) Market condition

It is estimated that the RTE cereal market are going up to the 1,000 billion yen in the middle of 1995, however, between 1989 and 1990, it is seen that the demand of RTE cereal market are growing slowly.

3) Market share

Many companies entered the RTE cereal market for three years since 1987, it is still expected that at least, one or two companies are going to enter the RTE cereal market. Even if Kellogg Japan is a giant and top manufacturer, however the competitive position of second group, Cisco, Nestle Japan, and Calbee are changing day by day. According to the marketing research agency, the market position of Nestle Japan are ranging from second to fourth. (Exhibit 21).

Exhibit 21 Estimated Market share in 1990

Kellogg	60%	
Calbee, Nestle, Cisco	10%	respectively
Others (Morinaga etc)	1~3%	
Morinaga Co	2.8%	(1990. 10 at a peak time)
Snow brand Co	7.3%	(1990. 10 at a peak time)
Meiji Co	1.0%	(1990. 8)

Data : The Nikkei Industrial Daily

4) Competitor's M & A

According to the Exhibit 18 and 19 between 1987 and 1989, Cisco Co are

losing a market share, regional sales manager of Nestle Japan caught the big news from retailers that there is a rumour but reliable one. That is, Nissin Foods are going to acquire the Cisco Co in the early stage of the 1991. If so, Nestle Japan will not only lose the market share dramatically, but also worsen the competitive condition.

Under these circumstances, in late October 1990, President of Nestle Japan called a special meeting to decide the new strategy of his company for the 1991.

11 The alternatives

1. A price cut and more sales expenditure

First alternative was presented by one manager. Manager Ito suggested, "We should cut prices on one of its cereal products. these cut, for example, all 20-30yen (15-20cent) per one package, would be effective". Manager Ito believed that this action would help Nestle restore its market share, particularly under the impact of increased competition from Kellogg's policy such as volume plus per one package to be taken now. In Nestle's case, the cost of cutting prices would be accommodated by less expensive raw material costs resulting from a recent appreciation of the yen.

Manager Ito also emphasized that this action will be accepted by the targetted customer not only young families, but also young females, since Japanese firms had recently met a fire from the public for not lowering the cheaper raw material imports.

Manager Ito showed an additional plan. "To improve our market share, we should also make a full use of our sales forces. In addition, more advertising and sales promotion expenses are needed".

2. Switch the target from adults to children

Sales manager Sato interrupted the conversation, and suggested, "It is estimated that more than 80% of housewives are purchasing the RTE cereal for the children, the rest for their own. Kellogg and Cisco both companies are basically targetting the children. On the other hand, we are targetting young families, but these customers are inconstant, they tend to switch to other foods selling in the convenience store. So, we should switch to the RTE cereal for children from the young families".

Sales manager Sato continued to speak, "Mr. Oka, young representative of Dentsu Inc, who is in charge of Nestle Japan, points out switching to the children as the RTE cereal for children is constantly selling. On the contrary, young families do not have a loyalty".

Sales manager Masaki replied, "But remember the fact! In the glorious story of Nestle Japan, there is only one failure in the history. In the 1970's, we begun to sell the Nestle's branded chocolates, but consequently withdrew from the market. There were three main reasons for it. First one is competitors. Many companies such as Morinaga Co, Meiji Co, Ezaki Gliko Co, Fujiya Co, Lotte Co, and others were competing against each other in the same market. Second one is that the distribution channel of confectionary business was not only very complicated, but also quite different from the coffee business. Although we established and maintained a distribution network through wholesale and retail distributors around the country. But, our sales forces at the branch and sales office failed to keep in contact communication with the retail customers and distributors of confectionary business. Third one is that most of the Japanese know the name of Nestle, but it was not popular in the customer of chocolate, mainly children. So, it is difficult for Nestle to switch our policies now."

3. Launching the new RTE cereal

1) corn-flakes cereal

Instead, Sales manager Masaki suggested, "According to the consumer's behavior reports analyzed by our marketing staff, it is estimated that 50 percent of consumers are purchasing the RTE cereal for breakfast, 40 percent for afternoon refreshments, 10 percent for midnight supper. We should concentrate on the RTE cereal for breakfast as our domain."

After taking a coffee, sales manager Masaki continued to speak, "In addition, compared with the competitor's products, Nestle Japan is weak in the cereals of corn-flakes, so that in order to compete with Kellogg Japan, we should launch these products by our own even if it takes a time to manufacture, if not, import it from General Mills Co or other company abroad and sell it under our brand name. In another case, we should manufacture and sell it after the licensing agreement with General Mills. Anyhow, without a corn-flakes, we can not compete with Kellogg, as a corn-flake is basic and main products in the RTE cereal, you know."

2) other RTE cereal

After listening to his colleague's talk, planning manager H. Dorf suddenly broke into the conversation, and suggested another alternative.

"I know we are weak in corn-flakes, but strong in the non-sweetened cereal. Our product, 「Vegetable time」 and Kellogg's 「Genmai flakes」 are accepted to the adults. And we have abilities in developing the new products such as 「Genmai Plus (diet on unpolished rough rice)」 and 「Fitness (healthy)」."

According to the research reports by Dentsu Inc, the biggest advertising agencies, there is another opinion, Mr. Oka suggests us putting more emphasis on advertising to the targetted customer, young families and

females, and invest more sales promotion to the retailers, especially, supermarkets in the urban areas by our sales forces of Special Project Section (Data 6).

4. Reinforcing Nestle's Coffee

After his conversation, then manager Doi of Coffee Product Planning section, suggested, "Cereals may be a fad. we should make strong efforts to convey the good aspects of our coffee. In this year, we launched the two new products, one is a soluble coffee, 「Nescafe mild time」, second a canned coffee, 「Nescafe Santamarta」. It is well progressed in the market. As you know, in the early of 1980, Nestle Group developed an Italian soluble coffee, mixing up sugar, creamy powder, corn-cyrup and others. This coffee, brand name of 「Nescafe Cappucino」, is well progressed in Europe. We had better launch this product as a test sales, even if it is analyzed before that this kind of coffee will not be sold, because it is popular for a Japanese to drink a flat coffee, according to the research reports. But it is not so risky compared with the RTE cereal market."

Manager Doi also emphasized, "Cereals are not suited to the breakfast. Customers want a hot soup in the morning. You know, from 1987 Ajinomoto Co launched the "Knor cup soup", and broadcasts on TV commercial, "Breakfast! are you drinking?", by using Ms. Kyoko Koizumi, a famous entertainer who is well known to the young people, sales of this soup is well accepted to the young females."

If you (President of Nestle Japan) are in a position to make decisions, what shall you do?

Data 1 : Nestle's RTE cereal

太陽をいっぱい浴び、大地に育つ穀物（シリアル）には、自然の恵みがいっぱいです。ネスルはこの栄養豊かな穀物を最新技術により、自然の栄養をそのままに、各種ビタミン、ミネラルなどの栄養素や話題の食物繊維を強化し、おいしい朝食用シリアルに作り上げました。

“ネスルの朝ごはん”はミルクを注いだ後も、サクサクとした口あたりが特長です。



Data 2 : Foods market in Japan.

Making comparison the sales of RTE cereal (Exhibit 7) with other foods in 1988, the following figures are suited to compare.

1) Bread (including confectionary type bread)	840 billion yen
2) Instant noodle	360 billion yen
3) Potato chips	120 billion yen
4) Milk	820 billion yen
5) Chocolate	382 billion yen
6) Biscuite	303 billion yen
7) Total confectionary market	2,666 billion yen

(Chocolate, Biscuite, Chewingum, Cake, Candy, etc)

Data 3 : Additional Information of Nestle Group in 1985

Key Figures (consolidated) *1		1985	1984
Sales	(in millions of Fr)	42,225	31,141
Trading profit		4,315	3,206
	in % of sales	10.2%	10.3%
Net Profit		1,750	1,487
	in % of sales	4.1%	4.8%

*1 The business policies which the Nestle Group applies in its home country and abroad are largely in line with the OECD guidelines for multinational enterprises.

The consolidated data figures of the Group does not include the Nestle' share of the sales on non-consolidated companies.

Sales in main markets		Differences 1985/1984	
1985 sales (in million of Fr)		in Fr	in local currency
United States	14,561	+ 114.4%	+ 106.3%
France	3,319	+ 9.1%	+ 7.3%
Federal Rep Germany	2,937	+ 12.8%	+ 11.6%
Japan	2,397	+ 9.2%	+ 4.9%
United Kingdom	2,220	+ 22.4%	+ 21.3%
Brazil	1,871	- 2.1%	+ 209.8%
Spain	1,430	+ 22.2%	+ 23.8%
Mexico	1,261	+ 30.7%	+ 100.1%
Canada	1,077	+ 50.4%	+ 54.5%
Italy	929	+ 11.5%	+ 16.8%
Switzerland	761	+ 1.9%	+ 1.9%

Recent M & A by Nestle group between 1985 and 1990

1988 : Acquisition of Buitoni-Perugina Group (pasta, culinary products, chocolate) in Italy.

1988 : Acquisition of Rowntree (chocolate, confectionary) in U. K.

Data 4 : Marketing Research Report (*1) on the Nikkei Industrial Daily (19 May 1990)

According to the marketing research reports done to the 498 persons aging from 15 to 40 years old person, mainly female, (1) by mail, (2) hand a sample of the RTE cereal to prospect customers, picked up the member list of some foods processing company, and (3) hand a sample of the RTE cereal to the highschool girls directly in the urban area of Tokyo, Osaka and Nagoya cities in Dec 1989 (Figure 1).

Figure 1 Answer to the questionnaires

by mail	customer	highschoolgirls	Total respondents
118	272	99	489 persons

(*1) This research was originally done under the direction of Prof. Kosuke Ogawa, and reported on the "Group Research Reports in Marketing Course in 1989", the Academy of Management Development, Japan Productivity Center.

The following research is done to the customers taking a RTE cereal frequently.

1) How many persons are they taking a breakfast

Question is "Do you take a breakfast?". The answer is that 72.2 percent of the respondents (489 persons) take a breakfast every day (Figure 2).

Figure 2 Take a breakfast? (sample 489 persons)

Yes	72.2%	353 persons
No	27.8%	136 persons

The reason why they do not take a breakfast or seldom is; (1) they don't have enough time, (2) they don't have appetite, (3) they want to sleep more rather than a breakfast.

Among 56.3 percent of the respondents, who are taking a breakfast every day, only spend ten minutes for it.

2) What they require to the breakfast

The things that the consumer requires to the breakfast, are that (1) 42.5 percent of the respondents want to satisfy a hunger, (2) 39.5 percent for the calorific value, (3) 39.9 percent for the convenience, (4) 36.0 percent for the balance of nutrition (Figure 3).

Figure 3 Requirement for breakfast

(1) to satisfy a hunger	42.5%
(2) for the calorific value	39.5%
(3) for the convenience	39.9%
(4) for the balance of nutrition	36.0%

Based on this analysis, most of the consumers think that these persons want to take a breakfast, however it is the fact that 54.8 percent of the respondents have a dissatisfaction, as they don't have a enough time to do it.

3) Desirable breakfast

Even if taking a western foods in the daily life, are now in common since 1960's, but the most desirable food as breakfast, is first 50.1 percent of the respondents answer the traditional japanese foods, such as rice with a miso-soup, second 29.7 percent of them answer the western foods, such as bread and butter, and only 4.7 percent answer the RTE cereal (Figure 4).

Figure 4 Desirable breakfast (sample 485 persons)

(1) Japanese	50.1%	(4) cereals	4.7%	*okayu = rice gruel
(2) western	29.7%	(5) okayu	2.9%	
(3) light meal	6.0%	(6) others	6.6%	

In addition, 67.7 percent of them answer, "we want hot one", for the breakfast.

4) When customer eat the RTE cereal

Basically the RTE cereal market are divided into the two markets, that is, for a breakfast and afternoon refreshment (Figurs 5).

Figure 5 Reply of Female Respondents

When Age	15~19	20~24	25~29	30~34	35~
breakfast	29	48	41	20	11
refreshment	25	7	7	4	12

* sample 400 persons who had an experience to eat cereals. (multiple answer).

5) How to eat the RTE cereal

There are only three combinations to eat the RTE cereal, that is, first one is 73.3 percent of the respondents (400 persons) are taking a RTE cereal with cold milk, second one 25.5 percent of the doing cereal alone, third one 10.3 percent of them doing cereal with yogurt. The weak point is that there is a limited way of eating a RTE cereal (Figure 6).

Figure 6 How to eat a RTE cereal

how to eat a cereal	ratio of answer
(1) with milk	73.3%
(2) no milk	25.5%
(3) with yogurt	10.3%
(4) with other foods	6.0%
(5) with bread	1.3%

(sample 400 persons)
(multiple answer)

6) What kind of RTE cereals do customer prefer?

Customers of the RTE cereals are divided into the two categories, first one is the customers who like sweet products and eat the RTE cereal as a snack, second is the customers who eat the RTE cereal as a healthy and nutrition food. According to the following data (Figure 7), 78 percent of customers aging from 15 to 19 years old, and 71 percent of

customers aging from 30 to 34 years old, in another words, teenagers and young wives with an infant are purchasing the pre-sweetened cereal. On the contrary, these customers do not purchase the nonsweetened cereal.

Figure 7 Reply of Female Respondents

	Age	15~19	20~24	25~29	30~34	35~
Type	Non-sweetened	12	24	17	5	10
	Pre-sweetened	46 (78%)	23	26	17 (71%)	9

* sample 216 persons who had an experience to eat the RTE cereals in three months & multiple answer.

7) Reason why customers eat the RTE cereal

Customers eat the RTE cereal due to the following reason (Figure 8).

Figure 8 Reply of Female Respondents

reason	ratio of answer	(sample 216 persons) (multiple-answer)
(1) convenience	77.3%	
(2) delicious	39.8%	
(3) nutrition	37.5%	

According to the cross sectional analysis by female segments, 83 percent of the full nest living together with parents and their children are requesting a breakfast to the convenience foods (Figure 9).

Figure 9 Relationship between convenience of cereal and family size

Family size	Bachelor	Married couples no children	Full nest	Full nest with parents	Other
No of replies	13	12	98	25	19
% of replies	65	75	78	83	86

(* sample 216 persons). (multiple-answer).

It is interesting that teenagers prefer delicious cereals (Figure 10). As

you can see the previous analysis, young people prefer presweetened cereal, it will be a key factor for the manufacturer to sell sweet and delicious cereal to the young people.

Figure 10 Relationship between delicious and age

Age	15~19	20~24	25~29	30~34	35~
No of replies	37	21	15	9	4
% of replies	63	38	29	38	17

Many people over the twenties show an interest on nutritious foods. On the other hand, only 27 percent of teenagers are taking a foods under the consideration of nutrition (Figure 11).

Figure 11 Relationship between nutrition and age

Age	15~19	20~24	25~29	30~34	35~
No of replies	16	24	23	10	8
% of replies	27	43	45	42	33

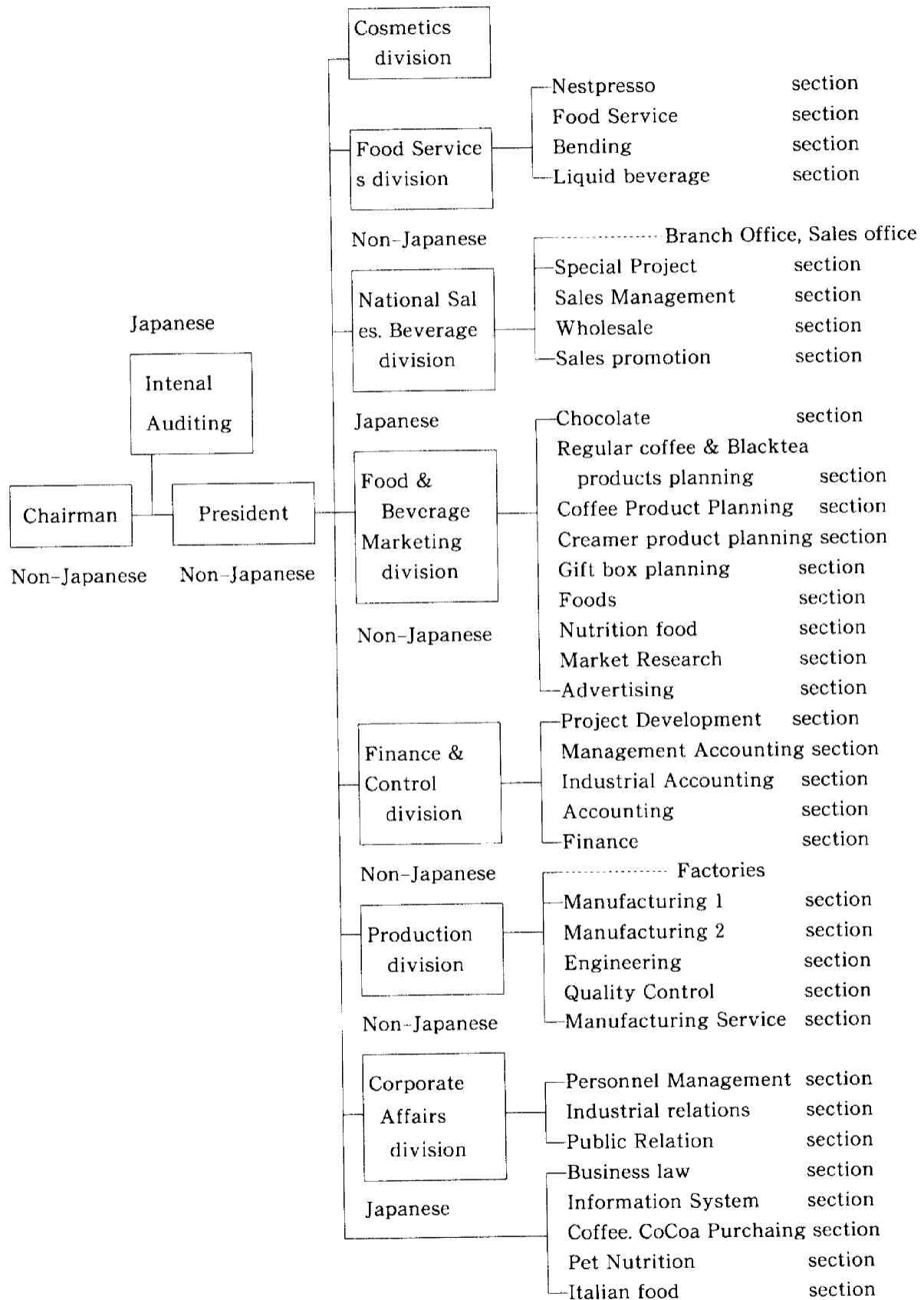
8) Reason why females do not eat the RTE cereals

From the replies of females who do not eat a cereal more than three months, the following figures are gotten.

Figure 12 Female respondents (107 persons) (multiple-answer)

reason	ratio of answer
(1) no room im my life	34.6%
(2) not tasty	28.0%
(3) not on a full stomach	26.2%
(4) feel insuffieient food	18.7%
(5) need a milk	11.2%
(6) high price	9.3%

Taking into account the above responses, the bottleneck to penetrate the RTE cereal at present may be estimated.

Data 6 : Organization chart of Nestle Japan in 1989

NESTLE JAPAN

TEACHING NOTE

prepared by Shoichi Hyakkai

1. Abstract (Synopsis)

This case presents a leading company Nestle Japan challenged in the RTE (ready to eat) cereal market and faced with the decision of status quo, adding the new product line, withdraw the market and so on. Together with his management team, Mr. M. Gyaretto (President of Nestle Japan at that time) must evaluate the threat of a competitor's acquisition, change in market, and other aspects, and decide how to respond effectively.

Making this decision requires a complete analysis of all aspects of the current strategy: customer analysis, market analysis, distribution, competitors' offerings and so on.

2. Teaching Objectives

Major objectives of the case are :

- 1) To expose students to the necessary analysis when deciding to add an item to an existing product line ;
- 2) To show the wide variety of data sources useful in assessing the magnitude of threat posed by competitors (competitors' performance, market data such as customers' concern, competitors' resources) ;
- 3) To develop participants' skills in analyzing market research reports and criticizing data collection methods ;
- 4) To provide a better understanding of the competitive environment in Japan.

3. Prerequisites

Students need a basic knowledge of business policy and marketing management, especially, marketing management.

4. Assignment questions

It will be used with graduate students to emphasize various marketing concepts (product life cycle, market segmentation, customer behaviour, market research, marketing 4Ps, and customer 4Cs) .

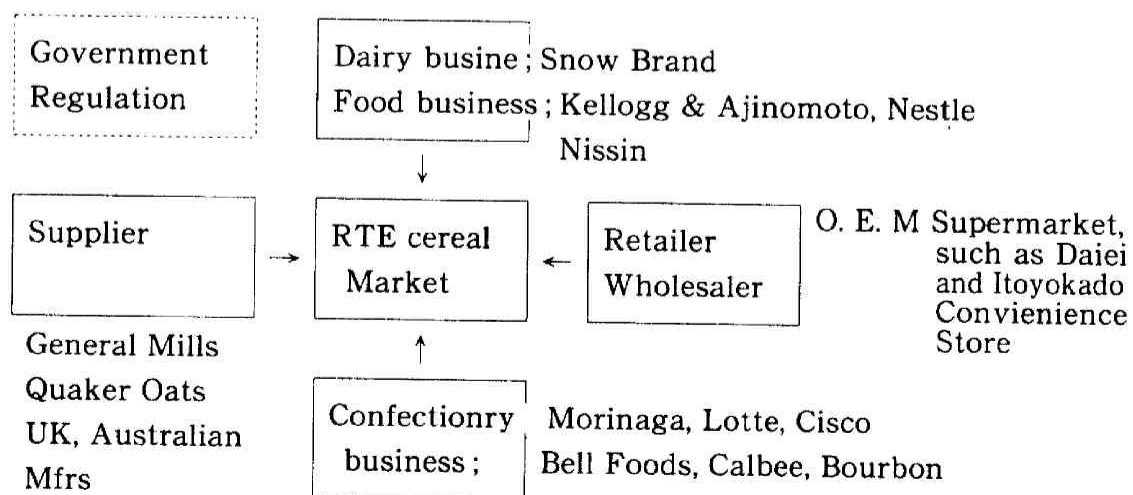
- 1) Ask the market condition of RTE cereals and how many competitors entering this market?

The above questions are useful for the students in order to understand the stage of RTE cereal market based on the concept of PLC.

Some students will suggest that the stage of RTE market in late 1980 is growth, and that the RTE cereal market in early 1991 is likely to stabilize.

Another students will point out that this is wrong and the RTE cereal market are still growing. No more than 20 minutes should be spent on this issue.

Appendix 1 ; The competitive condition of RTE cereal market based on the Porter's model is as follows :



If we clarify the behaviour of company in the RTE cereal market, it is obvious that the market leader is Kellogg Japan, challenger Nestle, Nicher Calbee, Cisco and other manufacturers. And the manufacturers have the following relationships such as sales agreement, O. E. M and so on.

Sales agreement Snow brandQuaker Oats
 O. E. M Nissin, Daiei, Itoyokado...Cisco...General Mill
 O. E. M convenience store.....Morinaga
 Sales distribution Kellogg Japan.....Ajinomoto

Appendix 2; The following table summarize the characteristics, marketing objectives, and marketing strategies of the four stages of the Product Life Cycle concept. the following strategy at each stages is generally to be taken, according to the Kotler's Text, "Marketing Management 8th edition".

Summary of Product Life Cycle Characterteristics, Objectives and Strategies

	Introductory	Growth	Maturity	Decline
Sales	low sales	rapidly rising sales	peak sales	declining sales
Cost	high cost per customer	average cost per customer	low cost per customer	low cost per customer
Profits	negative	rising profits	high profits	declining profits
Customers	innovators	early adopters	middle majority	laggards
Competitors	few	growing number	stable number beginning to decline	declining number
Marketing Objectives	create product awareness & trial	maximize market share	max profit while defending market share	reduce expenditures & milk brand

Strategies	basic product	product extensions, service	diversify brands & models	phase out weak items
Product				
Price	use cost plus	price to penetrate market	price to match competitors	cut price
Place	build selective distribution	build intensive distribution	build more intensive distribution	go selective phase out unprofitable outlets
Avertising	build product awareness among early adopters & dealers	bulid awareness & intersting mass market	stress brand differences & benefits	reduce to level needed to retain hardcore loyals
Sales Promotion	use heavy sales promotion to entice trial	reduce to take advantage of heavy consumer demand	increase to encourage brand switching	reduce to minimal lavel

Philip Kotler, "Marketing Management 8th edition", pp. 373.

2) What buying criteria do the various types of customer use to select the RTE ?

The following questions are useful for the students in order to understand the consumer behavior.

The question is to lead the students to think whether the RTE is a fad or here to stay? This is the very question that obsessed Nestle's executives at that time. The instructor should probe the class on this issue. The class will typically conclude that Nestle Japan knows very little about its market and customers. No more than 15 minutes should be spent on this issue.

Appendix 3; There are three types of customer, (1) Potential customer,

(2) Prospective customer such as young female, middle aged etc, (3) Customer (Light user, Heavy User with high loyalty or variety seeker) such as children, overseas experienced persons, etc.

3) What strength and weakness does Nestle Japan have?

Nestle Japan have been a very conservative company, as Nestle Japan have captured more than 60 percent share of the instant coffee market during the last 30 years or so. But Nestle Japan had failed in launching the chocolate in the early 1970 by their own marketing channel. This

Appendix 4; Summary of Marketing Mix taken by main companies

		Nestle	Kellogg	Calbee	Cisco
Market Target	→Children	○	○	○	○
	Adults	○	○		
	Young female				
	Young wives				
	Others				
Product concept	→Breakfast	○	○		
	Snack		○	○	○
Product policy	→Non-sweetened	○	○	○	○
	Pre-sweetened	○	○	○	○
	Con-flake	×	○	○	○
Price policy	→ High				
	Middle	○	○	○	○
	Low				
Promotion policy	→Sample	○			
	Advertising	○	○	○	○
Distribution Shops	→Confectionary			○	○
	Coffee	◎			
	Foods		○		
	→Supermarket				
	Convenience				
	Confectionary				

case, participants also point out this weakness. If not, the instructor can quickly contrast Nestle Japan with Kellogg Japan and ask participants why Kellogg Japan has become a market leader. One Key Factor for Success is that Kellogg is using a distribution channel by Ajinomoto, the other a cornflakes.

The instructor can now look at the different options to be discussed. There are basically 4 key choices :

Nestle's Alternatives

Before examining each of these options, the instructor should point out that each of these options is not exclusive. Nestle's management could choose several options at the same time. We recommend to examine each alternative according to the following order :

(1) A price cut and more sales expenditure

This price cut option is often eliminated by the participants since it does not provide Nestle Japan with a sustainable competitive advantage. Competitors can also cut price immediately and eventually lead Nestle Japan into a price war.

(2) Switch the target from adults to children

Some participants are likely to support this option. As we have seen the subtitle "Morning time with Nestle" of this theme, the basic concepts of Nestle's products is targetted to not only adults but also children who take a breakfast. If Nestle Japan support this option (children as a snack), it means that Nestle Japan must throughly change the policy. So this will not be accepted to the Nestle's board at that time.

(3) Launching the new RTE cereal

- 1) cornflakes cereal
- 2) other RTE cereal

Probably the class is often split on whether Nestle Japan should introduce a corn flake or not. Participants may be aware that the RTE cereals have been launched in the western countries, but in the asian countries as we have lots of alternatives (Data 4, Figure 4) such as traditional foods, convenience foods and others on the morning menu. Therefore, some participant may jump to the conclusion that the RTE cereal is a fad and that Nestle Japan should not introduced the new RTE cereal or withdraw this market.

The instructor should use the board the pros and cons of this option. Typically it would be :

Cons

- Corporate culture : Leader of the coffee market, RTE cereal is a fad
- Competition : More than 11 companies are entering the RTE market
- Distribution : Nestle' products is distributed to the retailer shops through the coffee route, but most manufacturers through the confectionary
- Customers : The children market is mature, adult customers are unstable

Pros

- RTE market except cornflakes : Nestle is doing very well
- Production for the cornflakes : It can be made soon under the licensing agreement with the General Mills Co.

- Production for the new RTE cereal : Nestle have abilities to develop
new one for the product differ-
entiation
- Customers : There is a clearly demand for healthy and diet directed
product

Very often, the participants will have forgotton about the competi-
tion. Therefore the instructor should raise the questions : Are Calbee,
Nissin Cisco likely to launch the new RTE cereal?

The answer to this question is certainly : yes !

Participants in favor of introducing the new RTE cereal should be
pushed to be specific on how Nestle Japan intend to compete in the
new RTE cereal segment.

Should Nestle Japan be a follower or a challenger? If Nestle Japan is
aiming at becoming the segement leader, what specific actions will be
required? In other world, how can Nestle Japan differentiate the new
RTE cereal from the competitors? At that satge, the instructor may
anticipate on what actually happens : Nestle Japan may not differenti-
ate its new RTE cereal from the competitors.

(4) **Reinforcing Nestle's Coffee**

Some students are likely to support this option since coffee represents
the core of Nestle's business. The instructor should then push the
students to be specific question how they intend to implement this
strategy (if more advertising : how much should Nestle Japan increase
its budget? and so on)

- 4) What recommendations and actions would you suggest to the Presi-
dent?

Some students will recommend that Nestle cut prices to reduce the competitor's cash flow. Others will say that price cuts approach cold back fire. A second group of students will say that the answer is to support a reinforcement of Nestle's coffee. This is an area of strength. Many students will favor bringing out the new RTE cereal for the product differentiation. In this case, there is no good answer from the above discussion.

But, the following information is helpful for teaching this case.

5. SEQUEL

Movement in 1991 on the newspapers (Nikkei Industrial Daily and Ryutsu)

1991. 2 Cisco Co joined the Nissin foods group.

1991. 4 Cisco changed the name Nissin-Cisco Co.

1991. 4 Nestle launched the new RTE cereals, "Nestle's Morning Time Milo" at the price of 370yen per one box (200 g) for the children in order to develop the market. This is 9 th products by Nestle.

1991. 5 Nestle's product, "Rockn fruits" is selling well to the children in the elementary and junior highschool students.

1991. 7 Best seller of RTE cereal in Kellogg is "All bran" (405yen, 225g per box)

1991. 9 Risbon Confectionary Co decided to enter the RTE cereal market.

1991. 12. 7 Nestle Japan reached the sales of 2 billion yen and became a no 4 manufacturer in the RTE cereal market due to the weakness in cornflakes.

1991. 12 Nestle Japan declared to withdraw the RTE cereal market and simultaniously consign the production of regular coffee to the M.

J. B Japan.

1991. 12. 13 The Nikkei Industrial Daily says ;

“Due to the big wall of food life, Nestle withdraw the RTE cereal market for breakfast. it is not expected to grow the market rapidly”.

M. W. O Gyaretto of Nestle Japan analyzed the market, “In the long run, the RTE cereal market will grow, but still the pie of market is not so big to share the market by many companies, so that Nastle Japan judged it unreasonable and unprofitable to stay this market”. He also add, “for 28 years, Kellogg Japan made a lot of efforts to develop the RTE cereal market, but Kellog Japan can not improve Japanese's diet at all”.

1992. 2 According to the POS data analysis by the Nikkei Industrial Daily, Nagatanien Co gained the second biggest market share (10 percent) due to the sales increase in “Doraemon” branded RTE cereals for children launced in 1991, even if the RTE cereal market is going to the maturity stage from the growth. On the other hand, Kellogg Japan did 60 percent.

1992. 4 Snow Brand Co decided to switch the two RTE cereals “Puchi-Oats” and “Chico-Ring” among the four Qaker Oats for adults to the chidren. According to the Nihon Cornfoods Association, it is estimated that the sales of RTE cereals had decreased to 13 percent in 1991 from 1990.

From the following figures, it is obious that while adult segment represented 50 percent of the total RTE cereal sales in 1989, this segment had decreased to 30 percent in 1991.

Appendix 5 ; **Estimated Sales composition of the RTE cereal in 1989 and 1991**

Segment	Children	Adults
Sales in 1989	50%	50%
Sales in 1991	70%	30%

Data :

Nihon Cornfoods Association

Newspapers said, "Each manufacturers tried to develop the adult market, especially young female, but there were lots of mis-marketing to be seen. For example, some companies distributed the RTE cereals for adults to the supermarket, where young females are not accustomed to go. The other one is that the package size of RTE cereals were designed for the families (family size), not for the young females and bachelors (personal size).

1992. 10 Mr. H. J Kret, who is a German and had been working with Nestle S. A since 1986, became a president of Nestle Japan.
- Mr. M. W. Gyaretto, who is a British and was a president of Nestle Japan from 1990 to 1992, became a vice president of Nestle S. A in charge of Asia and Oceania region from 1993.
1993. 2 Kellogg and Calbee launched the new products "Kellogg fruits-ful bran", and "Strawberry cornflakes" respectively.
1993. 7 Nissin Foods launched the "Cup Ciscorn" branded products (personal size and selling price ¥100 = \$1) to the young people.
1993. 9 QP Company, which is the leading company in mayonnaise, decided to sell the "Youji (infant) land" branded infant foods such as two snacks, three RTE cereals and three soups.

6. Class Plan

The case can be taught over a whole morning (/afternoon) or two separate sessions of 90 minutes each with group preparation.

Time management in teaching the case is critical. The participants have a lot to say about the various options to Nestle Japan. However it is important to allow enough time to analyze the problems that Nestle is facing. The following timetable for teaching the case is suggested :

10-15mn : Issue analysis

10-15mn : Segment analysis

15-20mn : Customer analysis

15-20mn : Competitors (Kellogg & Nestle company, etc) analysis

20-30mn : Discussion of Nestle's alternatives

In teaching the case, we would recommend that the instructor ask the participants to work in separate rooms to discuss the case and prepare presentations. Each team can be asked first to analyze the marketing data collected by the Japan academy of Management Development.

Second, the instructor can ask each group to evaluate the results of survey concerning consumer opinions on the RTE cereal in Japan. The students will be able to draw a few conclusions from the survey. Particularly, they may point out that the sample is limited.

Third, the instructor should ask the participants to evaluate the competitive environment in Japan.

Fourth, the instructor should ask the participants to prepare an action plan. The 4Ps model per major competitors can be used here, by asking the participants to answer the following questions.

	Nestle	Kellogg	Calbee	Cisco
Target				
Product				
concept				
Product				
policy				
Price				
Promotion				
Place				

Warning

If the class should include any Japanese participants who know the facts, the instructor should ask them beforehand not to disclose what really happened in Japan.

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9. Others

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